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SUBJECT: ISTANBUL BUSINESS LEADERS VOICE CONCERNS RE IMF
AGREEMENT, LOCAL ELECTIONS

11. (SBU) Summary. On January 23, Ambassador Jeffrey accompanied by Consul General met with members of the board of directors of the Turkish Industrialists and Businessmen's Association (TUSIAD). The discussion focused on concerns related to the global economic slowdown and its effects on the Turkish economy. Discussion at separate luncheon meetings with members of the American Business Forum Turkey (ABFT), an American Chamber of Commerce affiliate, and with the Turkish American Business Association (TAIK) echoed concerns raised by the TUSIAD board and underscored the significant effect the global economic crisis has had on both foreign investors and Turkish companies. End Summary.

12. (SBU) Ambassador Jeffrey, Consul General and Principal Commercial Officer met on January 23 with Arzuhan Yalcindag, Chairman of the Board of the Turkish Industrialists and Businessmen's Association (TUSIAD) and TUSIAD board members Ferit Sahenk and Ali Kibar. TUSIAD external relations officer Zafer Gazi and TUSIAD representative in Brussels Badadir Kaleagasi also sat in on the meeting. Founded in 1973, TUSIAD is a voluntary association of Turkey's largest manufacturing, financial and construction sector businesses. TUSIAD is one of the most influential Turkish NGOs, focusing not only on economic issues but also on political and social issues. Its "fundamental aim" is to institutionalize a market economy and consolidate a democratic order in Turkey. Yalcindag, like her predecessors, is an active commentator on economic, political and social issues facing Turkey. In her opening remarks to Ambassador she noted that TUSIAD is acknowledged as an objective observer and has credibility with the Turkish government (GOT).

13. (SBU) Ambassador also met on January 22 with the American Business Forum in Turkey (ABFT), one of two American Chamber of Commerce affiliates in Istanbul, to discuss concerns particular to U.S. companies in Turkey, and with the Turkish American Business Association (TAIK) to review events of interest to Turkish companies who do business with the United States. Both events were luncheon meetings with on-the-record remarks by the Ambassador. The Ambassador's remarks highlighted the growing bilateral commercial relationship, but cautioned that Turkey must still address investor concerns regarding the investment climate and commercial environment. He cited inefficiencies and inequities in the judicial system, improving but still insufficient IPR protection, and an enormous informal sector as areas that where reform is badly needed. He described U.S. support for Turkey's EU accession and underscored the importance of working together to facilitate the large-scale investments in Caspian energy and infrastructure that will bolster Turkey's role as an energy hub for Europe.

14. (SBU) During the TUSIAD meetings, Ferit Sahenk, Chairman of Dogus Holding, one of Turkey's four largest industrial conglomerates, gave an overview of recent economic developments, explaining that at first the GOT ignored the global credit crisis but that significant reductions in export figures finally forced the GOT to acknowledge the crisis. He noted that this is the first experience Turkey has had with a crisis that is global in nature, rather than caused by policy failures on the part of the GOT. In this case, Turkey and Turkish policy makers are not to blame for the crisis and in many ways Turkey is in better shape to withstand the crisis than other emerging markets, he argued. Turkey and, in particular, Turkish firms have a greater exposure to international credit markets than in past years - corporations, particularly in the real sector are significantly exposed. Bank exposure on the other hand is relatively healthy, he explained. There are few toxic assets and weak banks have either merged or been submerged over the past ten years.

15. (SBU) According to Sahenk, Turkey exists in a risk-adverse environment and a new IMF agreement is key to restoring confidence in the economy. However, upcoming municipal elections have affected GOT thinking with regard to a new IMF program, he noted. Ali Kibar, Chairman of Kibar Holding, explained that February would be a difficult month for the GOT budget, with a minimum of USD 12 billion in payments for election-related spending coming due, but no clear indication when or from where the funds to pay for those expenditures would materialize. Sahenk agreed, noting that the GOT has clear financial liabilities and that pre-election spending was affecting government accounts. Kibar claimed the GOT

ISTANBUL 00000049 002 OF 002

planned to delay physical payment as a direct result of the need to keep funds liquid in advance of the local elections. Yalcindag believes the GOT will seek to stall the IMF agreement until after the March 29 municipal elections in part to avoid scrutiny of government accounts. Nonetheless, Sahenk stressed the need for an IMF agreement as soon as possible, noting that market expectations are for an IMF program in the region of USD 20-25 billion. Domestic confidence is low despite abundant lira liquidity and basically healthy economic fundamentals. He argued that an IMF agreement would restore confidence and help provide a 'level of comfort' that would ensure the rollover of foreign currency denominated syndicated loans.

16. (SBU) Kibar noted that the GOT needs to exercise more fiscal and regulatory discipline to ensure a level playing field for foreign companies. If not, Turkey risks a credibility loss in the future with potential investors. Kibar, who is a joint venture partner with Hyundai in an auto assembly plant, expressed sentiments shared by U.S. company representatives at a January 22 luncheon with ABFT members. ABFT members cited a range of issues affecting foreign investors in Turkey including the difficulty of obtaining work permits for expatriate managerial staff as well as a general lack of transparency on the part of GOT officials and the strain Turkey's large informal sector places upon licensed businesses.

17. (SBU) ABFT members called on the Ambassador to manage and improve the perception of the U.S. in Turkey, which is not as favorable as it could be. They noted that ABFT had worked hard with parent companies in the United States to advocate against the Armenia resolution in previous years. Yalcindag explained that the Armenia resolution was also a very important one for TUSIAD and that she and members of the board of directors planned to visit Washington soon to discuss the issue on the Hill. Kibar also addressed the issue of anti-Americanism in Turkey noting that anti-Western feelings have risen at least in part because Turks blame the United States for the current economic difficulties. Energy is also a very important issue for Turkey and the U.S. is

viewed as less helpful than the EU on this topic, Kibar explained. Kaleagasi expressed his happiness with the elevation of MP Egemen Bagis to State Minister for EU affairs noting that this was a very good sign. ABFT members expressed concern that the GOT had lost interest in the EU process, but welcomed the selection of Bagis as EU negotiator. Wiener